

Media Release

Will AUD Recovery be Short Lived? Yes, Say Australian Business

(5 November 2019 - Australia) Australian corporates forecast the Aussie Dollar to slide further against the US Dollar in 2020 despite a recent burst of strength, according to East & Partners' latest research.

Based on direct interviews with 2,595 importers and exporters for East & Partners global currency forecast analysis, Australian trading enterprises predict the AUD/USD to fall to 0.668 in H1 2020, representing a three percent slide of three cents from current trading levels of 0.690.

The AUD/USD finished October at its highest closing level since July as markets continue to digest ongoing US-China trade war negotiations that have stalled yet again following recent optimism for an accord, in addition to upcoming RBA cash rate announcements, balance of trade and commodity market price volatility.

Whereas larger sized enterprises, characterised by a greater export orientated trade profile, traditionally returned a more bullish forecast relative to predominantly import only orientated small businesses. Lower Corporates (A\$20 – 100 million annual turnover) returned the most bearish Aussie Dollar forecast of 0.658, preparing for a five percent slide.

Currency forecasts for the AUD against the USD, NZD, GBP, RMB and EUR are complemented by proprietary hedging loss analysis. The newly launched research initiative aims to quantify a dollar value for the potential downside incurred by the large number of SMEs opting out of hedging or carrying a distinctly low hedging ratio relative to more sophisticated middle market enterprises.

The impact of full, partial or zero hedged positions is quantified in dollar terms, providing a clear breakdown of the cost of inaction and benefits associated with implementing basic FX risk management strategies. Hedging losses are determined against rolling six-monthly currency forecasts versus underlying actuals across a basket of major currency pairs to determine hedging loss value per business and the market as a whole.

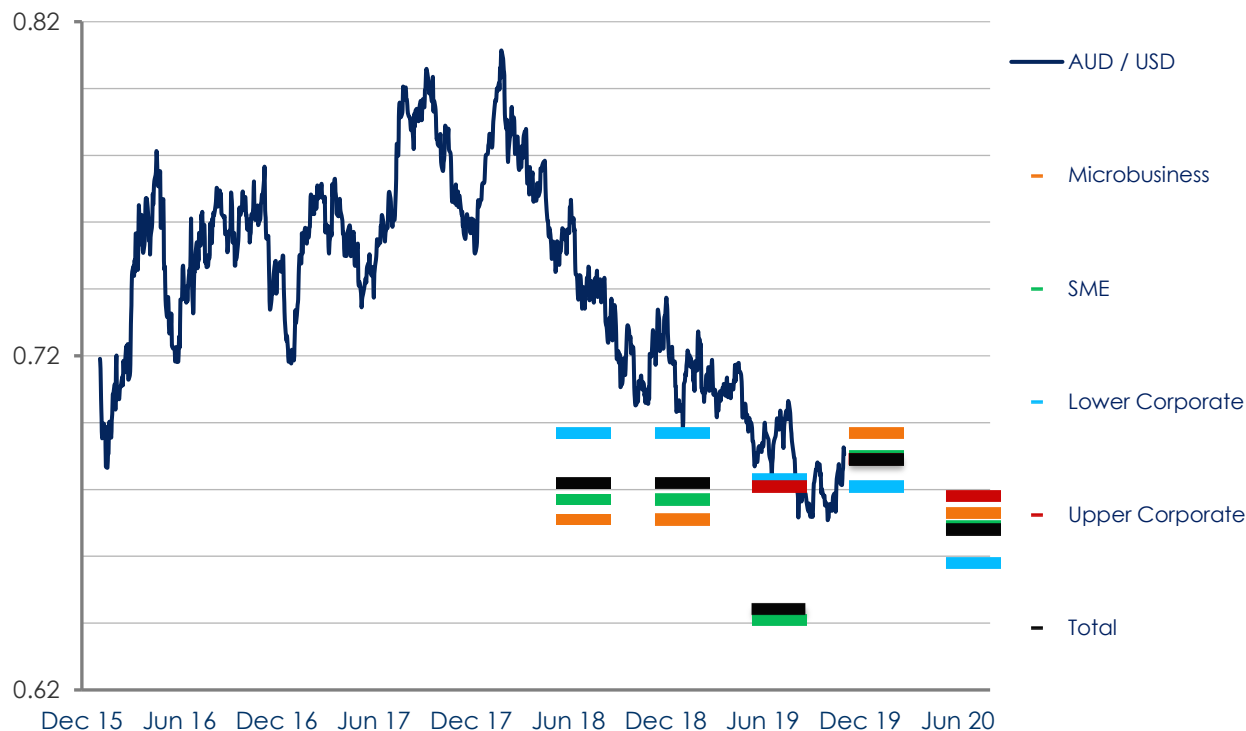
According to Kyriba's May 2019 Currency Impact Report with its survey of 1,200 publicly traded US companies, North American corporates sustained nearly US\$21 billion in FX losses during Q4 2018, the largest FX losses in since 2016.

"For most small business owners, the cost of currency risk management inaction is often difficult to assess against expense incurred using Forward contracts or more structured FX Options" East & Partners Head of Markets Analysis, Martin Smith says.

"Yet as export participation rises in line with a declining AUD, more businesses are expanding abroad without a concrete plan on how they would manage a volatile currency move against them, as evidenced by many large corporates incurring currency losses abroad such as Chinese rubber company Chongqing General Trading Chemical and Korean Air" Mr. Smith added.

AUD/USD Currency Forecast

Importers and Exporters (N = 2,595) – June 2020



About the research

This research is from East & Partners Australian Business FX Markets Program, a six-monthly research program. In total 2,595 Australian enterprises from Micro, SME, and Lower & Upper Corporate segments were interviewed directly by telephone in September 2019. Interviews were conducted with the CFO, Business Owner, Corporate Treasurer, Company Accountant or designated FX officer using a structured questionnaire.

The Micro segment comprises businesses turning over up to A\$1-5 million each year, while the turnover band for SMEs is A\$5-20 million, Lower Corporates A\$20-100 million and Upper Corporates at A\$100-725 million.

The interview sample was dispersed geographically across Australia and the sector distribution reflects a natural sample of the Australian enterprise population in these segments.

For more information, or to access the report contact:

Regional Insights Manager

Sian Dowling

e: sian.d@eastandpartners.com

t: +61 2 9004 7848

About East & Partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America